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Next 1 Page(s) In Document Denied

[redacted] 25X1

Subject: The Supply System of the Construction Industry of Poland

[redacted] 25X1

Table of Contents

[redacted] 25X1

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[redacted] 25X1

1. Introduction

The problem of supply of materials and the difficulties encountered in this field are most painful for the entire construction industry as well for other industries in Poland. If one asked an entirely non-political construction employee what is the basic difference between the prewar free market economy and the present communist economy, he would no doubt reply that the essence of this difference is the present difficulty of finding materials. The entire communist economic system is an economy of scarcity of materials and goods in relation to the planned needs and consumption. Therefore this is not an economy of a free play of forces but an economy of administered distribution: an economy similar to a war economy during which the allocation of some goods and raw materials is regulated by the government. Everybody who has had something to do with a war economy knows very well that the economic system of administered distribution itself causes waste of materials. Although the government pays great attention to saving materials, and the enormous difficulties of obtaining new allocation of materials should increase the care and concern, and lead to the most ~~most~~ economical management and use of materials, but this does not occur. On the contrary, restricted distribution results in careless use and waste of materials.

It is known that administered distribution requires a very large control system. An elaborate system of checks and controls must be overcome by the consumer before he obtains necessary materials, while it is not so much the money which he must pay for the material, but the allocation or the right to buy which is the most important. For this reason, ~~the~~ purchase is a privilege and not a commercial transaction attainable for every buyer. The fight for this privilege of allocation of building materials in Poland will be described in the next paragraph.

2. The Plan of Supply in the Construction Industry.

The enterprise cannot buy building materials directly from the producer because the producer has no right to dispose freely of his production. The producer does not produce for some particular purchaser or client whose requirements he knows well and takes into consideration, he produces for an anonymous client, the state. He receives from his superior a copy of the "allocation" permit issued to a buyer and this document is the basis for the delivery of materials. The payment is automatic and the price is fixed by the superior authority, i.e. the producer sends the account invoice to the bank with the statement and receipt that the material was sent to the purchaser,

and then the bank transfers the required sum to the account ~~for~~ of the producer. There are usually various reservations and disagreements about deliveries but they are settled later, after the automatic payment by the state bank, as post facto claims.

The construction-assembly enterprises receive the allocation permit from the superior distribution authority. For example, a construction association gets the allocation of cement from a regional administration or from a national construction administration or from the Central Administration of Engineering Material Supply (Centralny Zarzad Zaopatrzenia Materialowo-Technicznego) of the Ministry of Construction and Building Materials Industry. As a rule a construction association gets an allocation from its own superior authority for mass materials purchased in bulk. Already on this lowest level, the troubles and difficulties begin.

First of all the superior authority, e.g. a national construction administration, demands evidence and proof that the construction association or enterprise indispensably needs this material and the requested quantity of it.

Such a proof may be the estimate of the construction project with a list of building materials in a detailed specification, for example, how much cement is needed for this construction for the given year or period.

However this simple way is very seldom used because, in most cases when the enterprise is arranging the whole problem of allocation of materials, these estimates are not yet ready, there is only a comprehensive Production Plan which is foreseen for the given year by the enterprise. It should be remembered that the construction administration allocates (in our example)not existing, already produced or stored building materials, but future production, i.e. materials which will be produced. A burdensome and complicated procedure must be followed which consists of the following:

a. An enterprise submits a Requisition Plan (Plan Zapotrze-bowania) of materials for the year, e.g. 1960, to its central administration. It must be submitted in September 1959. The construction enterprise does not have detailed estimates for work to be done in 1960 at this time. It only has a general plan of production for the year 1960 ex - pressed by a statement that the probable construction contracts for 1960 will amount to about 200 million zlotys for example.

b. The analysis of this requisition is the next step. The Central Construction Administration determines whether the submitted requisition is not too high. But how can it check when the estimates are not available?

The check must be made on the basis of Indexes of use of Materials (Wskaznik Zuzycia Materjalowego)- technical, scientific or statistical. For example, the Construction Administration says: "The 1958 production plan of the association (enterprise)amounted to 180 million zlotys and the enterprise used 18,000 tons of cement; in 1959 the plan amounts to 200 million and the allocation is 19,500 tons; for the year 1960 the plan is 220 million zlotys, so a rational allocation on the basis of statistics could be 21,500 or 21,000 or 22,000 tons. But, to be safe, it allocates only 20,000 tons of cement for the year 1960. The association (enterprise) protests, and says that itforesees proportionally more foundation work and for this reason it will use more cement and demands 24,000 tons of cement.

Then the construction administration starts a technical analysis and its own specialists check each construction project separately. Several construction projects are being continued from the previous year and their program for 1960 is more or less known. It is therefore possible, even without the estimates, to calculate the approximate materials needed on the basis of technical coefficients. Other construction projects will be started and from their description and from the character of the work, on the basis of integrated coefficients of material used per one million zlotys of value, of each type of work, it is possible to calculate the necessary materials. In this way some compromise is reached and finally the construction administration certifies that the association (enterprise) really has the right to demand, let us say, 22,00 tons of cement for 1960.

Every association (enterprise) is analyzed in the same way. A national or a regional construction administration generally has from six to eight construction-assembly associations (enterprises), and for the entire administration, i.e. for all associations subordinated to it, demands e.g. 120,000 tons of cement for the year 1960. This requisition is called "comprehensive." Such a comprehensive plan is submitted by the national or regional construction administration to the Administration of Engineering-Material Supply of the Ministry of Construction and Building Materials Industry which collects requisition plans from all national and regional administrations and prepares a Comprehensive Plan of Supply of Materials (Zbiorczy Plan Zaopatrzenia Materialow) of the Ministry.

The above mentioned Administration of Engineering-Material Supply also has its own specialists who check doubtful items in requisitions of individual administrations or the entire requisition for a construction project; some paragraphs or items are corrected, and finally the Comprehensive Plan of Supply of the Ministry is submitted to the State Economic Planning Commission (PKPG) in October 1959.

c. The Analysis of Requisitions at the PKPG

The comprehensive plan of supply is sent to the department which prepares the balance sheets of building materials. Here the plans of supply submitted by the ministry are analyzed and arbitrarily reduced without much negotiating. The department has very few specialists and neither the time nor the ability for strict and thorough analysis. Its decisions are based on the following reasons:

The enterprises always ask for too much, according to PKPG opinion. The national and regional administrations control their subordinated associations and enterprises in a friendly way, and in their own interest also demand more than needed because they want to have larger stocks of materials in order to be able to administer more easily. Besides, the waste of building materials on the building sites is well known and for this reason less material should be allocated in order to force the enterprises to be economical. It is also necessary to introduce new methods of work which will result in saving building materials. Finally, the entire plan of supply is not based on estimates but on coefficients of average use and for this reason it is not accurate, and a difference of 3 - 5% in the estimate is always honestly possible.

In this way the State Economic Planning Commission as a rule reduces the requisitions about 10%, even in such building materials ~~as~~ where there is the least shortage.

In fact, the Ministry, knowing very well that the amount will be cut, submits requisitions a little greater than real need. Thus the Ministry can agree to a 10% cut without a big quarrel. However in most cases, the matter is complicated by the fact that the PKPG even after the "normal" 10% does not provide the full amount of necessary materials. For instance, in 1957 the government issued a directive to the PKPG that more cement should be allocated for peasants and on the free market in 1960. The production of cement for 1960 is known and it amounts, e.g. to 6.6 million tons. It may be 2-3% higher but it cannot be greatly increased. Meanwhile the problem of cement for peasants is a problem of the new agricultural policy and the government demands that the rural areas get more cement even if it means reducing the allocation for the Ministry of Construction. For example in 1958, about 1.1 million tons of a total production of 5.1 million tons of cement were allocated to rural areas. In a similar case, the coefficient of export of cement for 1960 may have to be increased because the Ministry of Foreign Trade made some agreements, etc.

This may lead to even larger reductions, e.g. by 20% of the yearly requisitions, and in such a case, the Ministry of Construction and Building Materials Industry must look ahead to a very difficult year, and knows that it will have great difficulties in implementing its production plan.

The State Economic Planning Commission goes even further. It is aware of the difficulties in producing the planned amount of cement and realized that some construction work will be delayed or not finished, and for this reason the government gives priority

privileges to some of the most important construction projects.

The experience of previous years has shown that the Ministry of Construction used the following trick. It distributed the allocated cement to its own construction projects, leaving Nowa Huta Construction Association without cement. Afterwards, it reported to PKPG that Nowa Huta had no cement. Because the Nowa Huta Metallurgical Center was the most important investment project in the country, PKPG did everything possible to deliver cement, e.g. it allocated less to rural areas and the free market (i.e. reducing the so-called "market-pool") and put off exports, etc. In order to avoid a repetition of such compulsory situations, the PKPG started the following procedure: It allocates to the Ministry of Construction, e.g., two million tons in 1960 which there is an "iron" allocation which can be used for only one purpose, e.g. for Nowa Huta Metallurgical Center, Chemical Plants in Oswiecim, Kedzierzyn,, Electric Power Plant in Turow, Machine Factory Ursus in Warsus or for other "national", military and secret construction projects. In this way the Ministry of Construction does not have a free hand with the total amount of allocated material. The Ministry resists such a procedure because it is a violation of the minister's rights and it leads to bad situations such as Nowa Huta having enormous stocks of cement which are not used, or are waiting to be used later, while at the same time work on other construction projects has to be stopped because there is no cement at all.

The State Economic Planning Commission must balance production output with use, and if there is a shortage, the so-called "stuffing" begins, i.e., the PKPG may say to the Ministry of Construction:

You will get not the 2,300,000 tons you demand, but only 2,000,000 tons, and this has to suffice. Stop the waste of cement. The waste from inaccurate pouring of cement from bags causes about 2% loss; do not make concrete foundations but use bricks or stone (it allocates neither bricks nor stones for this purpose and anyway they must be bound by cement.) All this is conducted by bargaining and the PKPG has the decisive voice, therefore the balance sheet is finally prepared and looks all right on paper. This balance sheet is submitted by the State Economic Planning Commission to Ministers Council Office in December 1959.

d. The Ministers Council examines the Comprehensive Plan of Supply of Materials at its session. This is mostly a formality, usually the Minister of Construction makes a statement during the discussion that his ministry has not received enough building materials, the Minister of Agriculture says that the needs of villages were not sufficiently taken into consideration, the Minister of Forestry that he does not agree with the planned cutting of forests (for lumber). The Minister of

Foreign Trade demands higher and more punctual exports, the Minister of Construction and Building Materials Industry complains that the production plan of cement is in danger because of a shortage of electric power, etc. All this goes on during the session of the Ministers Council on 31 December and all present know that the submitted plan must be approved because it is the last day of the year. Finally the Ministers Council approves the plan unanimously. At such meetings the First Secretary of the Party, Gomulka, and the majority of Polit Bureau members are present. In their presence the discussion is not easy because all ministers are afraid, e.g. the Minister of Mining says that the mines do not receive enough timber and it is necessary to increase the cutting of forests, but he is at once attacked by others who say that the output of coal is very low, etc. Thus most of the ministers present prefer to avoid much discussion in order to avoid attacks. Besides there is a secret part of the Supply Plan embracing deliveries for the armed forced which is not known to all members of the Ministers Council and which is not discussed at all. After the approval, the Plan of Supply becames a resolution of the Ministers Council and a law.

e. The Realization of Allocations

The resolution of the Minister Council fixes the total allocations for all the ministries. This does not mean that the enterprises requisition is already approved. The administration of Supply of the Ministry of Construction and Building Materials Industry has a total allocation, e.g., for the year 1960 of 2,000,000 tons of cement. It starts its distribution among national and regional administrations, asking for more detailed information and documentation. The Administration of Supply leaves a large reserve of cement for unforeseen difficulties and allocates to the subordinated administrations only 85% of the formerly approved amount. So in our case presented as an example, the construction administration will receive instead of the requested 120,000 tons only 100,000 tons of cement. This allocated amount is then distributed by the administration between associations (enterprises) after detailed analysis. These allocations are divided into quarterly allocations and the fight starts again. The Problem is that many of the building materials industries are seasonal and their production is not even throughout the calendar year. Cement is one of the most convenient because it is produced during the whole year and the enterprises are not so much bothered ~~that~~ because the yearly allocation is insufficient, because this will come out finally at the end of the year while at present they can use what they have and go on with planned construction projects. It is quite different with bricks. An association may have received an allocation for the whole year of 150 million units, but this is divided so that it will receive

15 during first quarter, 25 during the second, 50 during the third, and in the fourth quarter 60 million bricks.

In such a case there will be without any doubt a crisis in this association-shortage of bricks in the second quarter because the 25 millions for spring when the construction industry begins its proper season will be decidedly insufficient. However the Administration of Supply cannot allocate more bricks because the so-called seasonal brick factories (and most of brick factories are seasonal) start the fire in their kilns after the winter repairs, as late as in April, and the first new bricks appear only at the end of May because it is impossible to dig clay and dry it in the open before May in Poland. For this reason, every year in May there is idleness on the building sites because of the shortage of bricks.

Another example is lime. An association will receive, from its yearly allocation of let us say 50,000 tons, 10,000 in the first quarter and 10,000 in the second; in the third 20,000 and in the fourth 20,000 tons. Such distribution is the result of the necessity to give lime to peasants during the first and the second quarters because during the harvest and in the fall season they have neither transportation nor time to collect the lime. But during the third quarter, when the construction association receives the largest allocation, there will be a shortage of freight cars because at this time the freight cars will be transporting potatoes, sugar beets, grain and fruits. For this reason every year in September there is a transportation crisis in lime and gravel, because gravel is more accessible in the fall after the flood periods.

In December there is again another chronic crisis in window glass. Therefore, although there is not great fluctuation of employment in the construction industry in Poland, it is lower than before WWII, another type of seasonal difficulties occur, i.e. the seasonality of supplies. As a result, the construction industry does not work at an even pace, but during the fourth quarter implements an average of 35% of the yearly plan, during the third quarter 27-28%, during the second 20-22%, and in the first quarter of the year about 17%, i.e. below its production capacity and therefore inefficiently, and during the fourth quarter rapidly with a tension which has an affect on cost and quality.

After analyzing the causes of poor output and very low quality of construction in Poland one arrives at the conclusion that one of the main causes of this evil are the difficulties of supply.

The crisis of cement always arises in July and August when the construction industry increases its production and the cement factories are not able to keep pace with the increased demand. There is no shortage of cement during the fourth quarter when the construction industry is working very hard but at this time on finishing work which does not require so much cement as the rough work during the third season.

All the above mentioned difficulties are the result of insufficient reserve stocks which are necessary in order to overcome the differences between the production cycle of building materials and the production cycle of construction work. The shortage of these stocks is the result of the fact that the plan of the construction industry is based on current and future production of building materials and not on current production and existing stocks of materials.

f. The next stage is the correction of plans, which is unavoidable and caused by the "fluctuation" of the construction plan, because the government changes its plan every year. For example in June 1959, the Party suddenly started in the middle of the year an increased program of agricultural meliorations for political reasons. Such a program requires of course a change in allocations, e.g. more drain-pipes for rural areas which means less roofing tiles for the construction industry because both these articles are manufactured from the same category of high grade clay. Or again, in connection with the same resolution of the Plenum of PZPR in June 1959, suddenly a tractor factory "Ursus", in Warsaw, must be expanded at a cost of one billion zlotys during the period 1959-1961. There were no materials for this additional investment foreseen in the resolution of the Ministers' Council from 31 December 1958. These "planless" actions in the planned economy cause enormous additional difficulties in the supply system, especially in those categories of materials which are necessary for the industrial or rural construction as described in the above mentioned example (cement, cables, pipes, drainpipes). [redacted] there was never a year without sudden changes imposed from above. 25X1

g. The Period of Redistributions.

As was mentioned above, some periodical and special unforeseen crises are unavoidable. To them must be added such events as floods, shortage of electric current supply during peak hours, periods during which the cement factories cannot work, wet summers during which the bricks do not dry, breakdowns in factories etc., all of which cause idleness on construction sites. In such cases the Administration of Supply tries to save the situation by redistribution. A kind of emergency (stan wyjatkowy) is proclaimed for the critical material and the administration requests reports about stocks on the building sites. It takes away the cement from construction projects which, ac-

cording to existing rules have a reserve of cement for 14 days, and allocates this cement to a construction project which is idle for lack of cement. Such redistributions of cement, bricks, etc. are very expensive and much material is damaged and wasted (about 5% of bricks are damaged by each loading). The analysis of the very high costs of the construction industry in Poland shows the main reason, i.e. redistribution. Very often the associations send their trucks directly to cement factories and bring the "hot" cement straight to the building sites. Such transportation is very expensive but the enterprises are forced to do it because they can not wait seven days for normal transportation by railway.

h. Installation materials.

The above described difficulties refer to so-called "restricted" or balance sheet materials, but there are among them some with a so-called "acute deficit" (ostrodeficytowe) the shortage of which is very bad. The balance sheet of bricks cement, gravel, etc. is closed at least on paper (not in practice) but the balance sheet of some materials can not be balanced even after the most artificial and fictitious manipulations at the PKPG. Among these materials are:

cables and electric current transmission wires

water pipes, gas and central heating pipes

sanitary equipment like bath tubs, toilet basins, wash stands

heating equipment, gas stoves, bathstoves, oven tiles, radiators

zinc sheet, railroad rails, rolled bars and material especially of small cross sections

also rough boards, wooden flooring and roofing material, high grade facade and dyed tiles and plates

The chronic shortage of the above materials continues during the entire year. Some of them like cables, wire, acid resisting pipes and some fireproof materials must be imported, but this import is as a rule insufficient and delivered with delays because Poland cannot meet the financial obligations in time. This applies also to spare parts for construction machinery and equipment.

i. Quality.

No wonder that in such circumstances an enterprise does not pay much attention to the quality of materials, because if it refuses to accept delivery because of poor quality, it will be left without materials at all.

The poor quality results in the need for reconstruction and in waste of raw material and labor at the factory and at the building site. Thus, the constructed project is worse than it should be according to specification and requires repairs and exchange of some units after a short time. The sudden deterioration of the quality standards of the building industry in Poland has its origin in the poor work of the industry itself, but also to a great extent is due to the low quality of

building materials and the impossibility of refusal of the delivered materials. This comes out especially in the unseasoned wood for carpentry and flooring as well as in installation equipment.

j. Assortment

In connection with the general shortage of materials and their poor quality, the contractor is often unable to obtain the materials which he ordered. For example, in the design of a construction project, steel reinforcing of 12 m.m. diameter rods for concrete is specified, but the foundries do not like to produce such small profiles (because this hampers the implementation of their production plan which is counted in tons). The contractor, unable to obtain 12 m.m., is forced to take 14 or even 15 m.m. steel rods, increasing by 15% or more, the cost of steel used in construction because of the increased weight. The improper assortment causes great loses.

k. Hoarding

All enterprises gather materials without regard to actual needs and hide them before the control check. All this is done out of fear of being left without building materials. It is a fact that the cleverness and industriousness of a construction manager in Poland depends mainly on his skill in procuring materials.

On the other hand, this hoarding often results in a large quantity of materials being stocked on one building site, while at the same time another enterprise is idle due to lack of the same material. [redacted] as an example, an article which was published in Trybuna Ludu on 3 March 1959, page 6 : 25X1

..... "Building materials have in some sense ceased to be regarded as merchandize and have become an object with reserved and closed turnover within the construction enterprises who collect them through prudent and resourceful employees of the supply apparatus. Stocks greatly exceeding the permitted norms -- a nightmare of the entire national economy-have been created. At the same time the whole market has been stripped even of the most primitive assortments of these materials. The trade net of building materials is disappearing, and the "rear gate" of the construction site has become almost the only supplier for the individual and private customer.

Trade in building materials has not been decentralized. It is worth mentioning. as an example, the fact that in the whole country we have about 20 wholesale depots subordinated to the Building Materials Center which service very large areas of the country. In Czechoslovakia, however,- a much smaller country than Poland- they have 200 such depots.

Resume

The supply of materials is the most important problem of the construction industry. The production of building materials is insufficient to cover the current needs

and to create adequate stocks to overcome the seasonal cycles and unforeseen events. In addition to the shortage in total quantities, there are more severe deficiencies, in the assortment and quality. The best known facts about the supply system are:

- administered distribution of goods
- inaccurate planning and bureaucratic allocation
- too long a cycle from planning to realization
- fluctuation of the Construction Plan and continuous changes
- transportation difficulties
- redistribution
- hoarding
- poor quality
- improper assortment
- lack of home production of some important materials, and insufficient imports
- bad management on the building sites
- lack of a retail trade net
- the existence of double prices (state and free market), and theft
- artificial price system not corresponding to the real output of labor and the true value of materials
- increased consumption of materials because of an inadequate supply system which leads to waste.

Because of these great difficulties the construction managers are of the opinion that they accomplish miracles if they are able to finish a construction project at all. On the other hand construction work is carried out at high cost, drawn out in time and with low productivity.